

**FULTON COUNTY
INDUSTRIAL DEVELOPMENT AGENCY**

FINANCIAL STATEMENTS

DECEMBER 31, 2008

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INDEPENDENT AUDITORS' REPORT

To the Members
Fulton County Industrial Development Agency
Johnstown, New York

We have audited the accompanying basic financial statements of Fulton County Industrial Development Agency, a component unit of the County of Fulton, as of and for the year ended December 31, 2008. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Fulton County Industrial Development Agency as of December 31, 2008, and the results of its operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2009, on our consideration of Fulton County Industrial Development Agency's internal control and tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 2 through 9 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of industrial development revenue bonds, industrial development notes and leases are presented for purposes of additional analysis and are not a required part of the basic financial statements of Fulton County Industrial Development Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

WEST & COMPANY CPAs PC

March 20, 2009

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2008

The following is a narrative overview and analysis of the financial activities of Fulton County Industrial Development Agency (IDA or Agency) for the fiscal year ended December 31, 2008. This discussion is intended to serve as an introduction to the Agency's basic financial statements, which immediately follow this section. The basic financial statements have the following components: (1) management's discussion and analysis (MD&A), (2) Agency-wide financial statements, (3) notes to the financial statements and (4) supplemental schedules.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the basic financial statements and required supplementary information. The basic financial statements include two statements that are Agency-wide financial statements that provide both short-term and long-term information about the Agency's overall financial status.

Agency-Wide Statements

The Agency-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Agency-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – is one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, you need to consider additional nonfictional factors such as changes in the New York State government, labor forces and land availability.

I. BACKGROUND

A. General

The Fulton County Industrial Development Agency was created in 1970 by an act of the New York State Legislature. The IDA is a corporate governmental agency constituting a public benefit corporation. The law that authorized the creation of Industrial Development Agencies in New York State states that the purpose of an Industrial Development Agency (IDA) shall be:

“to promote, develop, encourage and assist in the acquiring, constructing, reconstructing, improving, maintaining, equipping and furnishing industrial, manufacturing, warehousing, commercial and research facilities and thereby advance the job opportunities, general prosperity and economic welfare of the people of the State of New York and to improve their standard of living.”

To accomplish this purpose, the New York State Legislature authorized IDAs to offer incentives in the form of tax exemptions to stimulate certain private sector investment.

B. Tax Exemptions

IDAs are authorized by the New York State Legislature to provide three forms of tax exemptions affecting personal and real property:

1. Property Tax

New York State Law designates IDAs as tax exempt entities. When an IDA holds title to the real property of a project, New York State Law provides that the real property and all improvements on the property are exempt from all general real property taxes. These exemptions apply as long as the IDA holds title to the property.

The Fulton County IDA, however, requires companies to make Payments In Lieu Of Taxes (PILOT). A PILOT is a written Agreement between the IDA and a company. The Agreement states that even though the project is tax exempt due to IDA ownership, the IDA wants the company to make certain payments to local taxing jurisdictions. PILOTs consist of an agreed upon percentage of the property tax that would otherwise be due on the property if the project had been completed without IDA involvement. PILOTs are developed in accordance with the Fulton County IDA's Uniform Tax Exemption Policy. Once a PILOT is executed, the company makes the required annual payments to the appropriate local taxing jurisdictions in accordance with the PILOT. It is the responsibility of the local taxing jurisdictions to issue annual invoices under a PILOT to the company and to ensure that payments are received in a timely manner.

2. Sales Tax

IDAs can offer exemptions from sales taxes but only on eligible materials purchased during construction and for eligible equipment for the project.

3. Mortgage Recording Tax

If a project involves a mortgage, companies that receive IDA assistance are exempt from New York State's mortgage recording tax. In Fulton County, this tax equals 1% of the total mortgage.

C. Industrial Revenue Bonds

IDAs can also provide important financing for a project through the issuance of Industrial Development Bonds (IRBs). IRBs are used to finance new or expansion projects. Financial institutions, such as banks, insurance companies or private individuals, purchase these bonds as an investment similar to an individual purchasing a U.S. Government Savings Bond. By purchasing a bond, a private investor lends their funds to a business. The business commits to repay the principal and interest to the lender. The IDA acts as an intermediary for this private transaction. There are no IDA or public funds involved in an IDA bond transaction.

The business and the financial institution themselves negotiate the terms and conditions of the transaction (its length, the interest rate), independent of the IDA.

The Fulton County IDA, Fulton County Government or local taxpayers do not lend any public money nor do they assume any responsibility for repaying bonds if the business defaults on any payment. There is also no financial liability on New York State, the County of Fulton or any political subdivision. IRB payments are solely the responsibility of the company borrowing the money.

D. NYS Public Authorities Accountability Act of 2005 (the Act)

In 2005, the NYS Legislature adopted and Governor Pataki signed in early 2006 the NYS Public Authorities Accountability Act of 2005. This key piece of legislation imposed fundamental changes to the way Industrial Development Agencies in New York State are to be administered and managed. The Act obligated IDAs to take certain affirmative actions to comply with this new law, including:

1. Prepare and file annual reports, budget reports and property reports in accordance with the requirements of the Act.
2. Prepare and adopt property and investment guidelines, personnel and compensation policies, defense and indemnification policies and a Code of Ethics.
3. Create and appoint Audit and Governance Committees.
4. Comply with numerous new operational requirements dealing with matters such as:
 - a) Preparing and filing independent financial audits.
 - b) Obtaining training for Board members.
 - c) Ensuring the separation of oversight and operational duties and responsibilities of the Agency.
 - d) Ensuring that Board members are independent.
 - e) Providing for financial disclosure of Board members.
 - f) Sale of real property.

Actions Taken in 2008

The IDA took the following actions in 2008 regarding the Act:

1. James E. Mraz continued as the part-time Executive Director of the IDA.
2. All IDA Board members completed their required training.
3. The IDA conducted its annual meeting at a new time as stipulated by the new By-Laws adopted in 2007.
4. The Audit Committee reviewed, on a regular basis, all invoices received by the IDA. All invoices received were reviewed and approved by the Audit Committee prior to a payment being issued.
5. Adopted a new Policy Manual that contains the following policies:
 01. Compensation and Reimbursement
 02. Attendance
 03. Travel
 04. Ethics
 05. Procurement
 06. Property Disposition
 07. Whistleblower Protection
 08. Extension of Credit to Board Members and Staff

The Policy Manual also included the following policies published by the State Authority Budget Office that public authorities are supposed to adhere to:

- 06-01: Board Member Training
 - 06-02: Understanding Corporate Governance
 - 07-01: Independence of Board Members
 - 07-02: Financial Disclosure by Local Public Authority Board Members
 - 07-03: Compliance Review Process
 - 07-04: Posting and Maintaining Reports on Public Authority Websites
6. Worked with the Fulton County Board of Supervisors' Office to create a link on the County's website for the Fulton County Industrial Development Agency. The following IDA information will now be maintained on-line:

- List of Board members and staff
- List of Committees
- Board Duties and Responsibilities
- Agency Bylaws
- Agency Policy Manual
- Meeting Minutes
- Meeting Notices
- Annual Audit
- Annual Financial Statement
- Annual Report
- Annual Budget

7. Continued utilizing PARIS.

8. IDA Board members and the Executive Director completed and filed Financial Disclosure forms.

II. SUMMARY OF 2008 ACTIVITIES

The Fulton County Industrial Development Agency is comprised of a seven (7) member Board of Directors. The Board of Supervisors appoints all members to the IDA and said members serve at the pleasure of the Supervisors.

Since its inception, the Fulton County IDA has not utilized public funding from any local taxing jurisdiction to conduct its day-to-day operations. The IDA's operating budget was raised entirely from private revenue sources. As a result, the County of Fulton received all of the benefits derived from the work of the IDA without having to contribute any taxpayer dollars to the operations of the Agency.

The IDA met a total of four (4) times in 2008. The following is a summary of the primary activities the IDA was involved with in 2008:

Expansions and New Projects:

1. Closed on the issuance of Civic Facility Bonds to finance the Fulton County YMCA.
2. Closed on the sale of a parcel of land in the Johnstown Industrial Park to Marck Recycling.
3. Continued working with NYSDOT regarding the installation of a new traffic signal at the intersection of NYS Route 30A and Enterprise Drive in the Johnstown Industrial Park.

A. Summary of Financial Results

See Table A-1 below for condensed statement of net assets:

Table A-1

Condensed Statements of Net Assets

	<u>2008</u>	<u>2007</u>	<u>% Change Increase/ (Decrease)</u>
Assets			
Current assets	\$ 1,125,778	\$ 1,132,683	-1%
Development projects	<u>2,151,558</u>	<u>2,215,537</u>	-3%
Total Assets	3,277,336	3,348,220	-2%
Liabilities			
Current liabilities	3,000	3,000	0%
Long-term debt	<u>514,708</u>	<u>514,708</u>	0%
Total Liabilities	517,708	517,708	0%
Net Assets			
Investment in capital assets, net of related debt	1,636,850	1,700,829	-4%
Unrestricted	<u>1,122,778</u>	<u>1,129,683</u>	-1%
Total Net Assets	<u>\$ 2,759,628</u>	<u>\$ 2,830,512</u>	-3%

Changes in Net Assets

The IDA's revenue was \$82,988 (see Table A-2). Professional fees and interest income accounted for 55% and 45%, respectively.

The total cost of all programs and services amounted to \$40,973 for 2008. These expenses (45%) are predominantly for marketing and professional fees.

Net assets for the year decreased by \$70,884 after a \$112,899 distribution to the City of Johnstown.

Table A-2

Changes in Net Assets from Operating Results

	<u>2008</u>	<u>2007</u>	<u>% Change Increase/ (Decrease)</u>
Revenues			
Program Revenues			
Charges for services	\$ 45,991	\$ 4,118	1017%
General Revenues			
Interest income	36,997	39,649	-7%
Gain on sale of land	0	16,184	-100%
Total Revenues	<u>82,988</u>	<u>59,951</u>	<u>38%</u>
Expenses			
Miscellaneous expense	963	1,689	-43%
Salaries and benefits	20,427	19,044	7%
Meetings and conferences	748	768	-3%
Memberships	450	450	0%
Marketing	7,110	5,138	38%
Professional fees	11,275	10,911	3%
Total Expenses	<u>40,973</u>	<u>38,000</u>	<u>8%</u>
Less Distribution to the City of Johnstown	<u>112,899</u>	<u>30,250</u>	<u>273%</u>
(Decrease) in Net Assets	<u>\$ (70,884)</u>	<u>\$ (8,299)</u>	

B. LONG-TERM DEBT

As of June 30, 2008, the IDA had \$514,708 in long-term debt outstanding. More detailed information about the IDA's long-term debt is included in the notes to basic financial statements.

Table A-3

Outstanding Long-Term Debt

	<u>2008</u>	<u>2007</u>
City of Gloversville	\$ 150,267	\$ 150,267
Board of Water Commissioners	89,124	89,124
Community Development Agency	74,961	74,961
Promote Gloversville Development Agency	50,089	50,089
Fulton County Economic Development Corporation	150,267	150,267
TOTALS	<u>\$ 514,708</u>	<u>\$ 514,708</u>

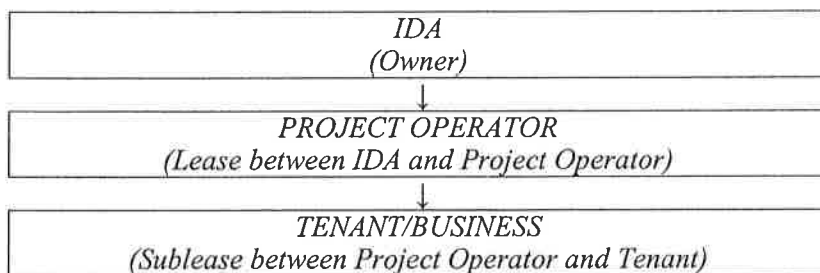
III. PAYMENT IN LIEU OF TAX AGREEMENTS (PILOTS)

A. Background

The IDA currently has numerous active PILOT Agreements. The responsibility for administering and enforcing a PILOT rests with local taxing jurisdictions. Yet, given the complexities with understanding how PILOTs work and changeover in personnel with local taxing jurisdictions, the IDA, in 2006, continued its annual monitoring project to assist local taxing jurisdictions in ensuring that PILOT Agreements are being properly administered.

B. Project Structure

Most projects IDAs are involved with use a typical format or structure. The IDA "owns" the real property, machinery and equipment and leases them to a "Project Operator." The Project Operator, in turn, subleases the real property and machinery and equipment to a business.



At the end of the lease term, ownership of the real property, machinery and equipment is transferred from the IDA to either the Project Operator or Tenant. Once title is transferred to the Project Operator or Tenant, the real property becomes fully taxable.

C. PILOTs

Given that IDAs are tax exempt, any property the IDA owns is exempt from property taxes for the entire length of the Lease Agreement. This is where a Payment in Lieu of Tax Agreement (PILOT) comes into play.

IDAs typically require Project Operators/Tenants to execute a PILOT as part of a project. The intent of a PILOT is to avoid allowing a Project Operator/Tenant to be exempt from paying property taxes during the entire time an IDA "owns" the property. A PILOT obligates the Project Operator to make payments to local taxing jurisdictions as if the property owned by the tax exempt IDA was privately owned and taxable. The PILOT allows local taxing jurisdictions to still receive revenues from IDA projects even though the property is tax exempt.

D. Key Provisions with a PILOT

There are two keys to understanding how a PILOT is administered:

1. The "Effective" date of the PILOT.
2. Tax Assessment Calendar.

(a) Effective Date

The effective date of a PILOT is the date a Certificate of Occupancy (CO) permit is issued by the local Code Enforcement Officer for the construction of the building.

(b) Tax Assessment Calendar

Tax rolls for each municipality are completed on March 1st of each year. PILOTs typically are set up so that, once a CO is issued, the building becomes assessed on the next tax roll. For example, the tax roll completed on March 1, 2008, was used for the 2008-09 school tax bills and the 2009 County and City/Town tax bills.

The first year of a PILOT is, therefore, the first tax year after the property goes into the tax assessment roll. For example:

> New Building Completed	:	July 2008
> CO Issued	:	August 2008
> Building goes on Tax Roll	:	March 2009
> Year 1 of PILOT for:		
School Tax	:	2009-10 Tax Year (September – August)
County Tax	:	2010 Tax Year (January – December)
City/Town Tax	:	2010 Tax Year (January – December)

The implementation of this annual monitoring program has helped local taxing jurisdictions properly administer PILOTs and ensure that they receive, in a timely fashion, all payments due them.

IV. CONCLUSION

The Fulton County IDA looks forward to 2009 with the hope and expectation of positive economic development initiatives being undertaken.

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

ASSETS

CURRENT ASSETS:

Cash in bank	\$ 623,911
Cash - restricted	<u>501,867</u>

Total current assets	1,125,778
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DEVELOPMENT PROJECTS	<u>2,151,558</u>
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TOTAL ASSETS	<u>3,277,336</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	3,000
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LONG-TERM DEBT	<u>514,708</u>
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TOTAL LIABILITIES	<u>517,708</u>
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NET ASSETS

Investment in capital assets, net of related debt	1,636,850
Unrestricted	<u>1,122,778</u>

TOTAL NET ASSETS	<u>\$ 2,759,628</u>
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See notes to basic financial statements.

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2008

	Program Revenue			Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Other Program Revenues	
FUNCTION/PROGRAMS				
Miscellaneous expense	\$ 963	\$ 0	\$ 0	\$ (963)
Meetings and conferences	748	0	0	(748)
Memberships	450	0	0	(450)
Marketing	7,110	0	0	(7,110)
Professional fees	11,275	45,991	0	34,716
Salaries and benefits	20,427	0	0	(20,427)
	<u>\$ 40,973</u>	<u>\$ 45,991</u>	<u>\$ 0</u>	5,018
GENERAL REVENUE:				
Interest income				<u>36,997</u>
EXCESS OF REVENUE OVER EXPENSES				42,015
DISTRIBUTION TO THE CITY OF JOHNSTOWN				<u>(112,899)</u>
CHANGE IN NET ASSETS				(70,884)
TOTAL NET ASSETS - BEGINNING OF YEAR				<u>2,830,512</u>
TOTAL NET ASSETS - END OF YEAR				<u>\$ 2,759,628</u>

See notes to basic financial statements.

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITY:

Excess of revenue over expenses	\$ 42,015
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Net cash provided by operating activity	42,015
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of land	63,979
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Distribution of capital	(112,899)
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Net cash (used) by investing activities	(48,920)
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NET (DECREASE) IN CASH	(6,905)
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CASH - BEGINNING OF YEAR	1,132,683
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CASH - END OF YEAR	<u>\$ 1,125,778</u>
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See notes to basic financial statements.

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fulton County Industrial Development Agency (Agency) have been prepared in conformity with U.S. generally accepted accounting principles. Significant accounting policies are:

Organization

The Agency is an Industrial Development Agency duly established under Title 1 of Article 18-A of the General Municipal Law of the State of New York, as amended, and Chapter 665, Section 895C, of the Laws of 1970 of the State and is a public benefit corporation of the State.

The Agency was formed for the purpose of encouraging economic growth in the County of Fulton. The Agency is exempt from federal, State and local income taxes. The Agency, although established by the Fulton County Board of Supervisors, is a separate entity and operates independently of the County of Fulton.

Basis of Accounting

The Agency is required by New York State to maintain its books on the accrual basis of accounting.

Budgetary Accounting

In accordance with Section 861 of the General Municipal Law, the Agency prepares and adopts annual budgets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, management considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Development Project Assets

Development project assets, consisting of land and site improvements acquired by the Agency, are stated at cost (or estimated historical cost) and include interest capitalized during construction where applicable. Contributed assets are recorded at fair market value at the date received. Major additions and betterments are capitalized, while maintenance and repairs which do not appreciably extend the useful lives of the related assets are charged to expense as incurred. There are no reversionary interests by the grantor in the assets (see also Notes 2 and 4 following).

Lot Sales

Certain lot sales are capitalized lease purchase agreements. The leases are structured to receive full payment at lease inception and are recorded as sales by the Agency at that time. Other lot sales are direct sales in which title to the property transfers to the purchaser.

NOTE 2 – CASH – RESTRICTED

- A. The Agency entered into an agreement with the City of Johnstown whereby the Agency is to develop the Johnstown Industrial Park (Park). The City of Johnstown (City) conveyed title to 175 acres of land to the Agency pursuant to Local Law No. 2 of 1989.

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 2 – CASH – RESTRICTED – (CONTINUED)

The Agency is to develop, operate and manage the Park. All revenues generated from the lot sales in the Park are to be allocated between the City and the Agency as follows:

1. Seven percent of gross revenues are to be retained by the Agency for administrative costs.
2. Of the remaining balance:
 - a. Fifty percent shall be paid to the City; and
 - b. Fifty percent shall be retained by the Agency and deposited in an interest-bearing account dedicated solely for the use in future industrial and economic development-type projects within the City, or outside the City with their approval.

B. Restricted cash balances at December 31, 2008, are as follows:

City of Johnstown (A. above)	<u>\$ 501,867</u>
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NOTE 3 – DEVELOPMENT PROJECTS

The Agency's development projects at December 31, 2008, are as follows:

Crossroads Industrial Park – Phase I	\$ 547,022
Crossroads Business Park	1,373,037
Johnstown Industrial Park	<u>231,499</u>
TOTAL	<u>\$ 2,151,558</u>

The development projects consist of land acquisition costs and site improvements; i.e., roads, water and sewer lines and landscaping.

NOTE 4 – LONG-TERM DEBT

As part of the Crossroads Business Park project, the Agency entered into an agreement with five local governmental and nonprofit entities. Each entity, including the Agency, provided funds necessary to meet the \$665,000 local match requirement of the EDA grant. The agreement provides that the Agency retain the first \$100,000 received for sale of lots of the Crossroads Business Park. Thereafter, the Agency, after deducting an administrative fee and any other customary sale or lease expenses, shall repay the project participants (including the Agency) at the percent of participation that each entity provided to the total \$665,000 local match.

Interest was accrued at 5½% on the unpaid balances for a maximum of seven years (ending in 2005). Therefore, for the year ended December 31, 2008, interest expense totaled \$-0-.

This balance is comprised of amounts due to the following entities:

City of Gloversville	\$ 150,267
Board of Water Commissioners	89,124
Community Development Agency	74,961
Promote Gloversville Development Agency	50,089
Fulton County Economic Development Corporation	<u>150,267</u>
TOTAL	<u>\$ 514,708</u>

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 5 – INDUSTRIAL REVENUE BOND AND NOTE TRANSACTIONS

Certain industrial development revenue bonds and notes issued by the Agency are secured by property which is leased to companies and is retired by lease payments. The bonds and notes are not obligations of the Agency or the State. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function is to arrange the financing between the borrowing companies and the bond and note holders and funds arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds and notes. At December 31, 2008, the original issue value of bonds issued aggregated \$18,045,000 and the outstanding balance was \$12,343,794 (see Schedule of Industrial Development Revenue Bonds). At December 31, 2008, the original value of notes and leases issued was \$2,287,363 and the outstanding balance was \$751,903.

NOTE 6 – INVESTMENTS

The Agency's investment policies are governed by State statutes. Agency monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The Agency is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States Government and its agencies and obligations of any state and its municipalities and school districts.

At December 31, 2008, the Agency maintained its three cash and four certificate of deposit accounts in one bank. Accounts are normally guaranteed by the FDIC up to \$250,000 per bank.

The Agency entered into a third-party custody agreement in which the bank has deposited with a third-party custodian investments with market values totaling \$892,726 as security for uninsured deposits. The Agency had no uninsured deposits at December 31, 2008.

NOTE 7 – COMMITMENT

During 1998, mortgages were recorded listing the Crossroads Incubator Corporation (CIC) and the Agency as mortgage debtors by the Fulton County Economic Development Corporation (FCEDC) and by the New York State Urban Development Agency. The mortgages were recorded on land owned by the Agency and developed by the CIC. The mortgages are nonrecourse collateral security mortgages and constitute limited obligations of the Agency payable solely from revenues of the Agency derived and to be derived from the mortgaged property. They are not a debt of the Agency, the County of Fulton or the State of New York.

During 1997, the Agency was listed as the debtor on Uniform Commercial Code filings (filings). The filings were for projects being developed on land owned by the Agency. The filings constitute limited obligations of the Agency. The Agency's responsibility on these obligations is the same as detailed above for the mortgages.

NOTE 8 – MARKETING AGREEMENT

The Agency has entered into an agreement with the FCEDC for marketing services. The FCEDC will actively market the Agency's industrial properties. The FCEDC's fees range from 2% to 10% of sale price of property, depending on the transaction. For the year ended December 31, 2008, the Agency incurred marketing expenses in the amount of \$5,000 and fees on the sale of property of \$2,110.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members
Fulton County Industrial Development Agency
Johnstown, New York

We have audited the basic financial statements of Fulton County Industrial Development Agency, a component unit of the County of Fulton, as of and for the year ended December 31, 2008, and have issued our report thereon dated March 20, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton County Industrial Development Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Fulton County Industrial Development Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting (see finding 2008-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fulton County Industrial Development Agency's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2008-1.

This report is intended solely for the information and use of management, others within the Agency and Board members and is not intended to be and should not be used by anyone other than these specified parties.

WEST & COMPANY CPAs PC

March 20, 2009

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE OF FINDINGS

SIGNIFICANT DEFICIENCY

DECEMBER 31, 2008

Finding 2008-1

Condition: The Public Authorities Act of 2005 (PAA) requires that the IDA create a CFO position to segregate duties by assuming certain tasks now being performed by the board treasurer, thereby strengthening internal controls.

The CFO would then oversee preparation of internal financial statements to include certain assets of the Agency that presently have not been included in the internal financial statements.

Recommendation: We recommend that the Agency determine the best way to comply with the requirements of the PAA by obtaining a CFO and including the assets previously omitted from the internal financial statements.

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF INDUSTRIAL DEVELOPMENT REVENUE BONDS

DECEMBER 31, 2008

<u>PROJECTS</u>	<u>CURRENT INTEREST RATE</u>	<u>OUTSTANDING BEGINNING OF YEAR</u>	<u>ISSUES</u>	<u>PRINCIPAL PAID</u>	<u>INTEREST PAID</u>	<u>DECEMBER 31, 2008 BALANCE</u>
Nathan Littauer Hospital Association project	Variable	\$ 6,070,000	\$ 0	\$ 335,000	\$ 181,244	\$ 5,735,000
Fulton County YMCA, Inc.	4.75%	0	5,450,000	500,000	160,522	4,950,000
Nathan Littauer Primary Care Center project	6.267%	<u>1,685,255</u>	<u>0</u>	<u>26,461</u>	<u>80,804</u>	<u>1,658,794</u>
TOTALS		<u>\$ 7,755,255</u>	<u>\$ 5,450,000</u>	<u>\$ 861,461</u>	<u>\$ 422,570</u>	<u>\$12,343,794</u>

SCHEDULE OF INDUSTRIAL DEVELOPMENT NOTES AND LEASES

DECEMBER 31, 2008

<u>PROJECT</u>	<u>CURRENT INTEREST RATE</u>	<u>OUTSTANDING BEGINNING OF YEAR</u>	<u>ISSUES</u>	<u>PRINCIPAL PAID</u>	<u>INTEREST PAID</u>	<u>DECEMBER 31, 2008 BALANCE</u>
Nathan Littauer Hospital Association project	5.18%	\$ <u>999,556</u>	\$ <u>0</u>	\$ <u>247,653</u>	\$ <u>45,900</u>	\$ <u>751,903</u>

See accompanying notes.

FULTON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

CODE OF ETHICS

I. INTRODUCTION:

This Code of Ethics shall apply to all members, staff and other employees of the Fulton County Industrial Development Agency (AGENCY). These policies shall serve as a guide for official conduct and are intended to enhance the ethical and professional performance of the AGENCY's directors and employees and to preserve public confidence in the AGENCY's mission.

II. RESPONSIBILITY OF MEMBERS, STAFF AND EMPLOYEES:

- A. Members, staff and employees shall perform their duties with transparency, without favor and refrain from engaging in outside matters of financial or personal interest, including other employment, that could impair independence of judgment, or prevent the proper exercise of one's official duties.
- B. Members, staff and employees shall not directly or indirectly, make, advise, or assist any person to make any financial investment based upon information available through the director's or employee's official position that could create any conflict between their public duties and interests and their private interests.
- C. Members, staff and employees shall not accept or receive any gift in excess of seventy-five dollars (\$75), whether it be in the form of financial payments, services, loans, travel reimbursement, entertainment, hospitality, thing or promise from any entity doing business with or before the AGENCY.
- D. Members, staff and employees shall not use or attempt to use their official position with the AGENCY to secure unwarranted privileges for themselves, members of their family or others, including employment with the AGENCY or contracts for materials or services with the AGENCY.
- E. Members, staff and employees must conduct themselves at all times in a manner that avoids any appearance that they can be improperly or unduly influenced, that they could be affected by the position of or relationship with any other party, or that they are acting in violation of their public trust.
- F. Members, staff and employees may not engage in any official transaction with an outside entity in which they have a direct or indirect financial interest that may reasonably conflict with the proper discharge of their official duties.
- G. Members, staff and employees shall manage all matters within the scope of the AGENCY's mission independent of any other affiliations or employment. Members, staff and employees employed by more than one government shall strive to fulfill their professional responsibility to the AGENCY without bias and shall support the AGENCY's mission to the fullest.
- H. Members, staff and employees shall not use AGENCY property or resources or disclose information acquired in the course of their official duties in a manner inconsistent with State or local law and the AGENCY's mission and goals.

III. IMPLEMENTATION OF CODE OF ETHICS:

- A. This Code of Ethics shall be provided to all members, staff and employees upon commencement of employment or appointment and shall be reviewed annually by the Governance Committee.

B. The AGENCY may designate an Ethics Officer, who shall report to the AGENCY and shall have the following duties:

- Counsel in confidence AGENCY members, staff and employees who seek advice about ethical behavior.
- Receive and investigate complaints about possible ethics violations.
- Dismiss complaints found to be without substance.
- Prepare an investigative report of their findings for action by the Executive Director or the board.
- Record the receipt of gifts or gratuities of any kind received by the director or employee, who shall notify the Ethics Officer within 48 hours of receipt of such gifts and gratuities.

IV. PENALTIES:

A. In addition to any penalty contained in any other provision of law, an AGENCY, members, staff or employee who knowingly and intentionally violates any of the provisions of this code may be removed in the manner provided for in law, rules or regulations.

V. REPORTING UNETHICAL BEHAVIOR:

A. AGENCY members, staff and employees are required to report possible unethical behavior by a member, staff or employee of the AGENCY to the Ethics Officer. Ethics complaints may be filed anonymously and are protected from retaliation by the policies adopted by the AGENCY.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

, James Mraz, certify that I am the Chief Executive Officer of Fulton County Industrial Development Agency and that this report, to the best of my knowledge, information and belief, is a true and correct statement of the financial transactions and fiscal condition for the year ended December 31, 2008.

Signature: _____

Title: _____

Chief Executive Officer